AN ACT relating to retirement and declaring an emergency.

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

➔Section 1. KRS 21.530 is amended to read as follows:

(1) For administrative purposes only, as hereinafter provided, the Legislators' Retirement Plan and the Judicial Retirement Plan shall be coordinated under the name, Judicial Form Retirement System, but each of the plans shall maintain its separate identity. A board of trustees of that system hereby is created, to consist of eight (8) members, three (3) of whom shall be appointed by the Supreme Court, two (2) by the Governor, ***subject to Senate confirmation in accordance with KRS 11.160 for each appointment or reappointment,*** one (1) by the President of the Senate, one (1) by the Speaker of the House of Representatives, and one (1) by the president and speaker jointly. The appointments by the Governor shall***:***

(a) Not be from among the members of either of the plans in the system, or from among the persons drawing benefits from either of those plans***; and***

(b) Have investment experience. For purposes of this paragraph, a trustee with "investment experience" means an individual who does not have a conflict of interest, as provided by Section 2 of this Act, and who has at least ten (10) years of experience in one (1) of the following areas of expertise:

1. A portfolio manager acting in a fiduciary capacity;

2. A professional securities analyst or investment consultant;

3. A current or retired employee or principal of a trust institution, investment or finance organization, or endowment fund acting in an investment-related capacity;

4. A chartered financial analyst in good standing as determined by the CFA Institute; or

5. A university professor, teaching investment-related studies.

(2) (a) The members of the board shall serve for terms of four (4) years, commencing

as of July 1, 1980, and until their successors are chosen and have qualified; provided that if a member of the board who was a member of one (1) of the plans in the system when he was appointed ceases to be a member of that plan, a vacancy shall thereupon be deemed to exist in his position on the board; and provided further, that the members of the Judicial Retirement Board in office on July 1, 1980, shall serve for the remainder of the terms for which they were appointed, as the members of the board created by this section, in the positions appointable by the Supreme Court and the Governor. Vacancies shall be filled by the appointing authority for the unexpired term.

(b) A trustee shall not serve more than three (3) consecutive four (4) year terms. A trustee who has served three (3) consecutive terms may be appointed again after an absence of four (4) years from the board. The term limits established by this paragraph shall apply to trustees serving on or after July 1, 2012, and all terms of office served prior to July 1, 2012, shall be used to determine if the trustee has exceeded the term limits provided by this paragraph.

(3) The members of the board shall annually elect a chairman. The chairman shall not serve more than four (4) consecutive years as chairman of the board. A trustee who has served four (4) consecutive years as chairman of the board may be elected chairman of the board after an absence of two (2) years from the position.

(4) Gubernatorial appointees, and judicial and legislative appointees who do not receive an annual salary from the State Treasury in another capacity shall receive an amount equal to the per diem compensation paid to members of the General Assembly for each day they are in session. All members shall be reimbursed for their necessary expenses.

➔Section 2. KRS 21.540 is amended to read as follows:

(1) Except as provided in KRS 21.550, 21.560, and ***subsections***~~[subsection]~~ (3) ***and (7)*** of this section, the board of trustees of the Judicial Form Retirement System shall

be charged with the administration of that system and of KRS 21.350 to 21.510, and shall have all powers necessary thereto, including the power to promulgate all reasonable administrative regulations, pass upon questions of eligibility and disability, make employments for services, and to contract for fiduciary liability insurance, and for investment counseling, actuarial, auditing, and other professional services ***subject to the***~~[as required without the]~~ limitations of KRS ***Chapters 45, 45A, 56, and 57***~~[45A.045]~~. The administrative expenses shall be paid out of an administrative account which shall be funded by transfers of the necessary money, in appropriate ratio, from the funds provided for in KRS 21.550 and 21.560.

(2) (a) A qualified domestic relations order issued by a court or administrative agency shall be honored by the Judicial Form Retirement System if the order is in compliance with the requirements established by the retirement system.

(b) Except in cases involving child support payments, the Judicial Form Retirement System may charge reasonable and necessary fees and expenses to the participant and the alternate payee of a qualified domestic relations order for the administration of the qualified domestic relations order by the retirement system. All fees and expenses shall be established by administrative regulations promulgated by the board of trustees of the retirement system. The qualified domestic relations order shall specify whether the fees and expenses provided by this subsection shall be paid:

1. Solely by the participant;
2. Solely by the alternate payee; or
3. Equally shared by the participant and alternate payee.

(c) For purposes of this subsection, a "qualified domestic relations order" shall mean any judgment, decree, or order, including approval of a property settlement agreement, that:

1. Is issued by a court or administrative agency; and

2. Relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child, or other dependent of a member.

(3) Notwithstanding any other evidence of legislative intent, it is hereby declared to be the controlling legislative intent that the provisions of KRS 21.345 to 21.580 and 6.500 to 6.577 shall conform with federal statutes or regulations and meet the qualification requirements under 26 U.S.C. sec. 401(a), applicable federal regulations, and other published guidance, and the board shall have the authority to promulgate administrative regulations, with retroactive effect if required under federal law, to conform the Legislators' Retirement Plan and the Judicial Retirement Plan with federal statutes and regulations and to meet the qualification requirements under 26 U.S.C. sec. 401(a).

(4) ***In order to improve public transparency regarding the administration of the Legislative Retirement Plan and the Judicial Retirement Plan, the board of trustees of the Judicial Form Retirement System shall adopt a best-practices model by posting the following information to the system's Web site and shall make it available to the public:***

(a) Meeting notices and agendas for all meetings of the board. Notices and agendas shall be posted to the system's Web site at least seventy-two (72) hours in advance of the board or committee meetings, except in the case of special or emergency meetings as provided by KRS 61.823;

(b) A list of the members of the board of trustees and membership on each committee established by the board, including any investment committees;

(c) A list of system staff and each staff's salary;

(d) A list of the fund's professional consultants and their respective fees and commissions paid by the system;

(e) A list of the system's expenditures;

1 ***(f) The annual financial audit of the system, which shall include but not be***
2 ***limited to a statement of plan net assets, a statement of changes in plan net***
3 ***assets, an actuarial value of assets, a schedule of investments, a statement***
4 ***of funded status and funding progress, and other supporting data;***
5 ***(g) All external audits;***
6 ***(h) The annual actuarial valuation report of pension and retiree health benefits***
7 ***of each retirement plan administered by the system, which shall include a***
8 ***general statistical section and information on contributions, benefit***
9 ***payouts, and retirement plan demographic data;***
10 ***(i) All board minutes or other materials that require adoption or ratification by***
11 ***the board of trustees or committees of the board. The items listed in this***
12 ***paragraph shall be posted within seventy-two (72) hours of adoption or***
13 ***ratification by the board or committees;***
14 ***(j) All bylaws, policies, or procedures adopted or ratified by the board of***
15 ***trustees or by committees of the board;***
16 ***(k) The summary plan description for each plan administered by the system;***
17 ***(l) A document or a link to documents containing an unofficial copy of the***
18 ***statutes governing the plans administered by the Judicial Form Retirement***
19 ***System;***
20 ***(m) Investment information, including all investment holdings in aggregate,***
21 ***fees, and commissions for each fund administered by the board, which shall***
22 ***be updated on a quarterly basis for fiscal years beginning on or after July 1,***
23 ***2017. The system shall request from all managers, partnerships, and any***
24 ***other available sources all information regarding fees and commissions and***
25 ***shall, based on the requested information received:***
26 ***1. Disclose the dollar value of fees and commissions paid to each***
27 ***individual manager or partnership;***

1 ***2. Disclose the dollar value of any profit sharing, carried interest, or any***
2 ***other partnership incentive arrangements, partnership agreements, or***
3 ***any other partnership expenses received by or paid to each manager or***
4 ***partnership; and***
5 ***3. As applicable, report each fee or commission by manager or***
6 ***partnership consistent with standards established by the Institutional***
7 ***Limited Partners Association (ILPA).***
8 ***In addition to the requirements of this paragraph, the system shall also***
9 ***disclose the name and address of all individual underlying managers or***
10 ***partners in any fund of funds in which system assets are invested;***
11 ***(n) An update of net investment returns, asset allocations, and the performance***
12 ***of the funds against benchmarks adopted by the board for each fund, for***
13 ***each asset class administered by the board, and for each manager over a***
14 ***historical period. The update shall be posted on a quarterly basis for fiscal***
15 ***years beginning on or after July 1, 2017;***
16 ***(o) All contracts or offering documents for services, goods, or property***
17 ***purchased or utilized by the system. Notwithstanding KRS 61.878, all***
18 ***contracts, including investment contracts, shall be subject to review by the***
19 ***board, the Auditor of Public Accounts, and the Government Contract***
20 ***Review Committee established pursuant to KRS 45A.705. If any public***
21 ***record contains material which is not excepted under KRS 61.878, the***
22 ***system shall separate the excepted material by removal, segregation, or***
23 ***redaction, and make the nonexcepted material available for examination;***
24 ***and***
25 ***(p) Information regarding the system's financial and actuarial condition that is***
26 ***easily understood by the members, retired members, and the public.***
27 ~~[The Judicial Form Retirement System shall make available on a public Web site, a~~

~~listing of all system expenditures and a listing of each individual employed by the systems along with the employee's salary or wages. The system may provide the information through a Web site established by the executive or judicial branch to inform the public about executive or judicial branch agency expenditures and public employee salaries and wages.]~~Nothing in this subsection shall require or compel the Judicial Form Retirement System to disclose information specific to the account of an individual member of the Legislators' Retirement Plan or the Judicial Retirement Plan.

(5) No trustee or employee of the board shall:

(a) Have any interest, direct or indirect, in the gains or profits of any investment or transaction made by the board, provided that the provisions of this paragraph shall not prohibit a member or retiree of one (1) of the retirement plans administered by the system from serving as a trustee;

(b) Directly or indirectly, for himself or herself or as an agent, use the assets of the system, except to make current and necessary payments authorized by the board;

(c) Become an endorser, surety, or obligor for moneys loaned by or borrowed from the board;

(d) Have a contract or agreement with the retirement system, individually or through a business owned by the trustee or the employee;

(e) Use his or her official position with the retirement system to obtain a financial gain or benefit or advantage for himself or herself or a family member;

(f) Use confidential information acquired during his or her tenure with the systems to further his or her own economic interests or that of another person; or

(g) Hold outside employment with, or accept compensation from, any person or business with which he or she has involvement as part of his or her official

position with the system. The provisions of this paragraph shall not prohibit:

1. A trustee from serving as a judge or member of the General Assembly; or

2. A trustee from serving on the board if the compensation is de minimus and incidental to the trustee's outside employment. If the compensation is more than de minimus, the trustee shall disclose the amount of the compensation to the other trustees and recuse himself or herself from any matters involving hiring or retaining a person or a business from whom more than de minimus amounts are received by the trustee. For purposes of this section, "de minimus" means an insignificant amount that does not raise a reasonable question as to the trustee's objectivity.

(6) Notwithstanding any other provision of KRS 6.500 to 6.577 and 21.345 to 21.580 to the contrary, no funds of the Legislators' Retirement Plan or the Judicial Retirement Plan, including fees and commissions paid to an investment manager, private fund, or company issuing securities, who manages systems assets, shall be used to pay fees and commissions to ~~[unregulated]~~placement agents. For purposes of this subsection, "~~[unregulated]~~placement agent" means ***a third-party***~~[an]~~ individual***,*** ***who is not an employee,*** or firm***, wholly or partially owned by the entity being hired,*** who solicits investments on behalf of an investment manager, private fund, or company issuing securities~~[, who is prohibited by federal securities laws and regulations promulgated thereunder from receiving compensation for soliciting a government agency]~~.

(7) All contracts for the investment or management of assets of the system shall not be subject to KRS Chapters 45, 45A, 56, and 57. Instead, the board shall conduct the following process to develop and adopt an investment procurement policy with which all prospective contracts for the investment or management of assets of the system shall comply:

(a) On or before July 1, 2017, the board shall consult with the secretary of the Finance and Administration Cabinet or his or her designee to develop an investment procurement policy, which shall be written to meet best practices in investment management procurement;

(b) Thirty (30) days prior to adoption, the board shall tender the preliminary investment procurement policy to the secretary of the Finance and Administration Cabinet or his or her designee for review and comment;

(c) Upon receipt of comments from the secretary of the Finance and Administration Cabinet or his or her designee, the board shall choose to adopt or not adopt any recommended changes;

(d) Upon adoption, the board shall tender the final investment procurement policy to the secretary of the Finance and Administration Cabinet or his or her designee;

(e) No later than thirty (30) days after receipt of the investment procurement policy, the secretary or his or her designee shall certify whether the board's investment procurement policy meets or does not meet best practices for investment management procurement; and

(f) Any amendments to the investment procurement policy shall adhere to the requirements set forth by paragraphs (b) to (e) of this subsection.

➔Section 3. KRS 61.645 is amended to read as follows:

(1) The County Employees Retirement System, Kentucky Employees Retirement System, and State Police Retirement System shall be administered by the board of trustees of the Kentucky Retirement Systems composed of ***seventeen (17)***[~~thirteen (13)~~] members, who shall be selected as follows:

(a) The secretary of the Personnel Cabinet shall serve as trustee for as long as he occupies the position of secretary under KRS 18A.015, except as provided under subsections (5) and (6) of this section;

(b) Three (3) trustees, who shall be members or retired from the County Employees Retirement System, elected by the members and retired members of the County Employees Retirement System;

(c) One (1) trustee, who shall be a member or retired from the State Police Retirement System, elected by the members and retired members of the State Police Retirement System;

(d) Two (2) trustees, who shall be members or retired from the Kentucky Employees Retirement System, elected by the members and retired members of the Kentucky Employees Retirement System; and

(e) ***Ten (10)***[~~Six (6)~~] trustees, appointed by the Governor of the Commonwealth***, subject to Senate confirmation in accordance with KRS 11.160 for each appointment or reappointment***. Of the ***ten (10)***[~~six (6)~~] trustees appointed by the Governor:

1. One (1) trustee shall be knowledgeable about the impact of pension requirements on local governments;

2. One (1) trustee shall be appointed from a list of three (3) applicants submitted by the Kentucky League of Cities;

3 One (1) trustee shall be appointed from a list of three (3) applicants submitted by the Kentucky Association of Counties;

4. One (1) trustee shall be appointed from a list of three (3) applicants submitted by the Kentucky School Boards Association; and

5. ***Six (6)***[~~Two (2)~~] trustees shall have investment experience. For purposes of this subparagraph, a trustee with "investment experience" means an individual who does not have a conflict of interest, as provided by KRS 61.655, and who has at least ten (10) years of experience in one (1) of the following areas of expertise:

a. A portfolio manager acting in a fiduciary capacity;

b. A professional securities analyst or investment consultant;

c. A current or retired employee or principal of a trust institution, investment or finance organization, or endowment fund acting in an investment-related capacity;

d. A chartered financial analyst in good standing as determined by the CFA Institute; ***or***

e. A university professor, teaching ~~[economics or]~~investment-related studies~~[; or~~

~~f. Any other professional with exceptional experience in the field of public or private finances]~~.

(2) The board is hereby granted the powers and privileges of a corporation, including but not limited to the following powers:

(a) To sue and be sued in its corporate name;

(b) To make bylaws not inconsistent with the law;

(c) To conduct the business and promote the purposes for which it was formed;

(d) ***Except as provided in subsection (6) of Section 4 of this Act,*** to contract for investment counseling, actuarial, auditing, medical, and other professional or technical services as required to carry out the obligations of the board ***subject to***~~[without limitation, notwithstanding the provisions of]~~ KRS Chapters 45, 45A, 56, and 57;

(e) To purchase fiduciary liability insurance;

(f) ***Except as provided in subsection (6) of Section 4 of this Act,*** to acquire, hold, sell, dispose of, pledge, lease, or mortgage, the goods or property necessary to exercise the board's powers and perform the board's duties ***subject to***~~[without limitation, notwithstanding the limitations of]~~ KRS Chapters 45, 45A, and 56; and

(g) The board shall reimburse any trustee, officer, or employee for any legal

expense resulting from a civil action arising out of the performance of his official duties***. The hourly rate of reimbursement for any contract for legal services under this paragraph shall not exceed the maximum hourly rate provided in the Legal Services Duties and Maximum Rate Schedule promulgated by the Government Contract Review Committee established pursuant to KRS 45A.705, unless a higher rate is specifically approved by the secretary of the Finance and Administration Cabinet or his or her designee***.

(3) (a) Notwithstanding the provisions of subsection (1) of this section, each trustee shall serve a term of four (4) years or until his successor is duly qualified except as otherwise provided in this section. An elected trustee or a trustee appointed by the Governor under subsection (1)(e) of this section, shall not serve more than three (3) consecutive four (4) year terms. An elected trustee or a trustee appointed by the Governor under subsection (1)(e) of this section, who has served three (3) consecutive terms may be elected or appointed again after an absence of four (4) years from the board.

(b) The term limits established by paragraph (a) of this subsection shall apply to trustees serving on or after July 1, 2012, and all terms of office served prior to July 1, 2012, shall be used to determine if the trustee has exceeded the term limits provided by paragraph (a) of this subsection.

(4) (a) The trustees selected by the membership of each of the various retirement systems shall be elected by ballot. For each trustee to be elected, the board may nominate, not less than six (6) months before a term of office of a trustee is due to expire, three (3) constitutionally eligible individuals.

(b) Individuals may be nominated by the retirement system members which are to elect the trustee by presenting to the executive director, not less than four (4) months before a term of office of a trustee is due to expire, a petition, bearing

the name, last four digits of the Social Security number, and signature of no less than one-tenth (1/10) of the number voting in the last election by the retirement system members.

(c) Within four (4) months of the nominations made in accordance with paragraphs (a) and (b) of this subsection, the executive director shall cause to be prepared an official ballot. The ballot shall carry the name, address, and position title of each individual nominated by the board and by petition. Provisions shall also be made for write-in votes.

(d) The ballots shall be distributed to the eligible voters by mail to their last known residence address.

(e) The ballots shall be addressed to the Kentucky Retirement Systems in care of a predetermined box number at a United States Post Office located within Kentucky. Access to this post office box shall be limited to the board's contracted auditing firm. The individual receiving a plurality of votes shall be declared elected.

(f) The eligible voter shall cast his ballot by checking a square opposite the name of the candidate of his choice. He shall sign and mail the ballot at least thirty (30) days prior to the date the term to be filled is due to expire. The latest mailing date shall be printed on the ballot.

(g) The board's contracted auditing firm shall report in writing the outcome to the chair of the board of trustees. Cost of an election shall be payable from the funds of the system for which the trustee is elected.

(h) For purposes of this subsection, an eligible voter shall be a person who was a member of the retirement system on December 31 of the year preceding the election year.

(i) Each individual who submits a request to be nominated by the board under paragraph (a) of this subsection and each individual who is nominated by the

membership under paragraph (b) of this subsection shall:

1. Complete an application developed by the retirement systems which shall include but not be limited to a disclosure of any prior felonies and any conflicts of interest that would hinder the individual's ability to serve on the board;
2. Submit a resume detailing the individual's education and employment history and a cover letter detailing the member's qualifications for serving as trustee to the board; and
3. Authorize the systems to have a criminal background check performed. The criminal background check shall be performed by the Department of Kentucky State Police.

(5) Any vacancy which may occur in an appointed position shall be filled in the same manner which provides for the selection of the particular trustee, and any vacancy which may occur in an elected position shall be filled by appointment by a majority vote of the remaining ***elected*** trustees ***with a person selected from the system in which the vacancy occurs***, and if the secretary of the Personnel Cabinet resigns his position as trustee, it shall be filled by appointment made by the Governor; however, any vacancy shall be filled only for the duration of the unexpired term. ***In the event of a vacancy of an elected trustee, Kentucky Retirement Systems shall notify members of the system in which the vacancy occurs of the vacancy and the opportunity to be considered for the vacant position. Any vacancy shall be filled within ninety (90) days of the position becoming vacant.***

(6) (a) Membership on the board of trustees shall not be incompatible with any other office unless a constitutional incompatibility exists. No trustee shall serve in more than one (1) position as trustee on the board; and if a trustee holds more than one (1) position as trustee on the board, he shall resign a position.

(b) A trustee shall be removed from office upon conviction of a felony or for a

finding of a violation of any provision of KRS 11A.020 or 11A.040 by a court of competent jurisdiction.

(c) A current or former employee of Kentucky Retirement Systems shall not be eligible to serve as a member of the board.

(7) Trustees who do not otherwise receive a salary from the State Treasury shall receive a per diem of eighty dollars ($80) for each day they are in session or on official duty, and they shall be reimbursed for their actual and necessary expenses in accordance with state administrative regulations and standards.

(8) (a) The board shall meet at least once in each quarter of the year and may meet in special session upon the call of the chair or the executive director.

(b) The board shall elect a chair and a vice chair. The chair shall not serve more than four (4) consecutive years as chair or vice-chair of the board. The vice-chair shall not serve more than four (4) consecutive years as chair or vice-chair of the board. A trustee who has served four (4) consecutive years as chair or vice-chair of the board may be elected chair or vice-chair of the board after an absence of two (2) years from the positions.

(c) A majority of the trustees shall constitute a quorum and all actions taken by the board shall be by affirmative vote of a majority of the trustees present.

(9) (a) The board of trustees shall appoint or contract for the services of an executive director and fix the compensation and other terms of employment for this position without limitation of the provisions of KRS Chapters 18A~~[and 45A]~~ and KRS 64.640. The executive director shall be the chief administrative officer of the board.

(b) The board of trustees shall authorize the executive director to appoint the employees deemed necessary to transact the business of the system. ***All employees of the systems, except for the executive director, shall be subject to the state personnel system established pursuant to KRS 18A.005 to***

18A.204 and shall have their salaries determined by the secretary of the Personnel Cabinet[~~ For an appointee deemed to be in a policy-making position , the board shall determine the compensation and other terms of employment for the policy-making position without limitation of the provisions of KRS Chapter 18A. Anything in the Kentucky Revised Statutes to the contrary notwithstanding, the power over and control of determining and maintaining an adequate complement of employees shall be under the exclusive jurisdiction of the board of trustees.~~

~~(c) Effective December 1, 2002, all employees of the Kentucky Retirement Systems shall be transferred to a personnel system adopted by the board. Employees of Kentucky Retirement Systems covered by the personnel system adopted by the board shall be:~~

~~1. Provided the same health insurance coverage as all other state government employees as provided in KRS 18A.225;~~

~~2. Eligible to participate in the deferred compensation system provided for all state government employees as provided in KRS 18A.250 to 18A.265;~~

~~3. Provided the same life insurance coverage provided all state employees as provided in KRS 18A.205 to 18A.215;~~

~~4. Reimbursed for all reasonable and necessary travel expenses and disbursements incurred or made in the performance of official duties in accordance with KRS Chapter 45;~~

~~5. Ensured equal employment opportunity regardless of race, color, gender, religion, national origin, disability, sexual orientation, or age;~~

~~6. Given those holidays and rights granted to state employees as provided in KRS 18A.190;~~

~~7. Paid a salary not less than the salary paid as of the date of transfer to the~~

~~personnel system, unless voluntarily demoted or involuntarily demoted for cause;~~

~~8. Credited with all accumulated sick leave, compensatory time, and annual leave accumulated in accordance with KRS Chapter 18A, and for an employee leaving service, the system shall attest to the employee's accumulated sick leave, compensatory time, and annual leave which shall be credited with other state and county employers to the extent provided for by statute or policy. The Kentucky Retirement Systems may, at the discretion of the board, accept from other state and county employers all accumulated sick leave, compensatory time, and annual leave for an employee leaving a state or county employer and accepting employment with the Kentucky Retirement Systems. The executive branch shall accept from the Kentucky Retirement Systems all accumulated sick leave, compensatory time, and annual leave for an employee leaving the Kentucky Retirement Systems and accepting employment with the executive branch. The Kentucky Retirement Systems shall accept from the executive branch all accumulated sick leave, compensatory time, and annual leave for an employee leaving the executive branch and accepting employment with the Kentucky Retirement Systems;~~

~~9. Classified with status upon transfer to the personnel system on December 1, 2002, if the employee was classified with status as a merit employee under KRS Chapter 18A. Any employee of the Kentucky Retirement Systems transferred on December 1, 2002, during the probationary period before earning classified status as a merit system employee under KRS Chapter 18A shall transfer all accrued probationary time and the time shall be credited to the probationary time~~

~~required to attain classified status in the personnel system;~~

~~10. Ensured a grievance appeal procedure and the employee's right to have a representative present at each step of the grievance procedure; and~~

~~11. Ensured of the right of appeal in a manner consistent with the provisions of KRS 18A.095 to the Kentucky Personnel Board and employees classified with status in the personnel system shall not be dismissed, demoted, suspended, or otherwise penalized except for cause.~~

~~(d) The board shall adopt by administrative regulation a fair, equitable, and comprehensive personnel policy with a minimum of the following provisions for the personnel system:~~

~~1. A code of conduct including provisions describing performance of duties, abuse of position, conflicts of interest, and outside employment;~~

~~2. An appointments plan including provisions describing the appointing authority, appointments, equal employment policy, sexual harassment policy, and drug-free workplace policy;~~

~~3. A classification plan including provisions describing class specifications, position actions, and employee actions;~~

~~4. A compensation plan based on qualifications, experience, and responsibilities and including provisions which describe a salary schedule, salary adjustments, salary advancements, and an employee suggestion program;~~

~~5. Separations, disciplinary actions, and appeal policies including provisions describing classified with status, exemptions from classified with status, lay-offs, abolishment of position, dismissals and notification of dismissal, dismissals during probationary period, disciplinary actions, right of appeal, grievance and appeal procedures, and an employee grievance and appeal committee;~~

~~6. Service and benefits regulations including provisions describing hours of work, fringe benefits, workers' compensation, payroll deductions, holidays, inclement weather days, compensatory time, retirement, resignations, employee evaluations, and political activities; and~~

~~7. Leave policies including provisions describing special leave, annual leave, court leave and jury duty, military leave, voting leave, educational leave, sick leave, family medical leave, leave without pay, absence without leave, and blood donation leave~~].

(c)[~~(e)~~] The board shall require the executive director and the employees as it thinks proper to execute bonds for the faithful performance of their duties notwithstanding the limitations of KRS Chapter 62.

(d)[~~(f)~~] The board shall establish a system of accounting.

(e)[~~(g)~~] The board shall do all things, take all actions, and promulgate all administrative regulations, not inconsistent with the provisions of KRS 16.505 to 16.652, 61.510 to 61.705, and 78.510 to 78.852, necessary or proper in order to carry out the provisions of KRS 16.505 to 16.652, 61.510 to 61.705, and 78.510 to 78.852. Notwithstanding any other evidence of legislative intent, it is hereby declared to be the controlling legislative intent that the provisions of KRS 16.505 to 16.652, 61.510 to 61.705, and 78.510 to 78.852 conform with federal statute or regulation and meet the qualification requirements under 26 U.S.C. sec. 401(a), applicable federal regulations, and other published guidance. Provisions of KRS 16.505 to 16.652, 61.510 to 61.705, and 78.510 to 78.852 which conflict with federal statute or regulation or qualification under 26 U.S.C. sec. 401(a), applicable federal regulations, and other published guidance shall not be available. The board shall have the authority to promulgate administrative regulations to conform with federal statute and regulation and to meet the qualification requirements under 26

U.S.C. sec. 401(a), including an administrative regulation to comply with 26 U.S.C. sec. 401(a)(9). The board shall have the authority to promulgate an administrative regulation to comply with any consent decrees entered into by the board in Civil Action No. 3:99CV500(C) in order to bring the systems into compliance with the Age Discrimination in Employment Act, 29 U.S.C. Section 621, et seq., as amended.

(10) ~~[All employees of the board shall serve during its will and pleasure.~~]Notwithstanding any statute to the contrary, employees shall not be considered legislative agents under KRS 6.611.

(11) The Attorney General, or an assistant designated by him, may attend each meeting of the board and may receive the agenda, board minutes, and other information distributed to trustees of the board upon request. The Attorney General may act as legal adviser and attorney for the board, and the board may contract for legal services, notwithstanding the limitations of KRS Chapter 12 or 13B.

(12) (a) The system shall publish an annual financial report showing all receipts, disbursements, assets, and liabilities. The annual report shall include a copy of an audit conducted in accordance with generally accepted auditing standards. Except as provided by paragraph (b) of this subsection, the board may select an independent certified public accountant or the Auditor of Public Accounts to perform the audit. If the audit is performed by an independent certified public accountant, the Auditor of Public Accounts shall not be required to perform an audit pursuant to KRS 43.050(2)(a), but may perform an audit at his discretion. All proceedings and records of the board shall be open for inspection by the public. The system shall make copies of the audit required by this subsection available for examination by any member, retiree, or beneficiary in the office of the executive director of the Kentucky Retirement Systems and in other places as necessary to make the audit available to all

members, retirees, and beneficiaries. A copy of the annual audit shall be sent to the Legislative Research Commission no later than ten (10) days after receipt by the board.

(b) At least once every five (5) years, the Auditor of Public Accounts shall perform the audit described by this subsection, and the system shall reimburse the Auditor of Public Accounts for all costs of the audit. The Auditor of Public Accounts shall determine which fiscal year during the five (5) year period the audit prescribed by this paragraph will be completed.

(13) All expenses incurred by or on behalf of the system and the board in the administration of the system during a fiscal year shall be paid from the retirement allowance account. Any other statute to the contrary notwithstanding, authorization for all expenditures relating to the administrative operations of the system shall be contained in the biennial budget unit request, branch budget recommendation, and the financial plan adopted by the General Assembly pursuant to KRS Chapter 48.

(14) Any person adversely affected by a decision of the board, except as provided under subsection (16) of this section or KRS 61.665, involving KRS 16.505 to 16.652, 61.510 to 61.705, and 78.510 to 78.852, may appeal the decision of the board to the Franklin Circuit Court within sixty (60) days of the board action.

(15) (a) A trustee shall discharge his duties as a trustee, including his duties as a member of a committee:

1. In good faith;
2. On an informed basis; and
3. In a manner he honestly believes to be in the best interest of the Kentucky Retirement Systems.

(b) A trustee discharges his duties on an informed basis if, when he makes an inquiry into the business and affairs of the Kentucky Retirement Systems or into a particular action to be taken or decision to be made, he exercises the

care an ordinary prudent person in a like position would exercise under similar circumstances.

(c) In discharging his duties, a trustee may rely on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by:

1. One (1) or more officers or employees of the Kentucky Retirement Systems whom the trustee honestly believes to be reliable and competent in the matters presented;

2. Legal counsel, public accountants, actuaries, or other persons as to matters the trustee honestly believes are within the person's professional or expert competence; or

3. A committee of the board of trustees of which he is not a member if the trustee honestly believes the committee merits confidence.

(d) A trustee shall not be considered as acting in good faith if he has knowledge concerning the matter in question that makes reliance otherwise permitted by paragraph (c) of this subsection unwarranted.

(e) Any action taken as a trustee, or any failure to take any action as a trustee, shall not be the basis for monetary damages or injunctive relief unless:

1. The trustee has breached or failed to perform the duties of the trustee's office in compliance with this section; and

2. In the case of an action for monetary damages, the breach or failure to perform constitutes willful misconduct or wanton or reckless disregard for human rights, safety, or property.

(f) A person bringing an action for monetary damages under this section shall have the burden of proving by clear and convincing evidence the provisions of paragraph (e)1. and 2. of this subsection, and the burden of proving that the breach or failure to perform was the legal cause of damages suffered by the

Kentucky Retirement Systems.

(g) Nothing in this section shall eliminate or limit the liability of any trustee for any act or omission occurring prior to July 15, 1988.

(h) In discharging his or her administrative duties under this section, a trustee shall strive to administer the retirement system in an efficient and cost-effective manner for the taxpayers of the Commonwealth of Kentucky.

(16) When an order by the system substantially impairs the benefits or rights of a member, retired member, or recipient, except action which relates to entitlement to disability benefits, or when an employer disagrees with an order of the system as provided by KRS 61.598, the affected member, retired member, recipient, or employer may request a hearing to be held in accordance with KRS Chapter 13B. The board may establish an appeals committee whose members shall be appointed by the chair and who shall have authority to act upon the recommendations and reports of the hearing officer on behalf of the board. The member, retired member, recipient, or employer aggrieved by a final order of the board following the hearing may appeal the decision to the Franklin Circuit Court, in accordance with KRS Chapter 13B.

(17) The board shall give the Kentucky Education Support Personnel Association twenty-four (24) hours notice of the board meetings, to the extent possible.

(18) The board shall establish a formal trustee education program for all trustees of the board. The program shall include but not be limited to the following:

(a) A required orientation program for all new trustees elected or appointed to the board. The orientation program shall include training on:

1. Benefits and benefits administration;

2. Investment concepts, policies, and current composition and administration of retirement systems investments;

3. Laws, bylaws, and administrative regulations pertaining to the

retirement systems and to fiduciaries; and

4. Actuarial and financial concepts pertaining to the retirement systems.

If a trustee fails to complete the orientation program within one (1) year from the beginning of his or her first term on the board, the retirement systems shall withhold payment of the per diem and travel expenses due to the board member under this section and KRS 16.640 and 78.780 until the trustee has completed the orientation program;

(b) Annual required training for board members on the administration, benefits, financing, and investing of the retirement systems. If a trustee fails to complete the annual required training during the calendar or fiscal year, the retirement systems shall withhold payment of the per diem and travel expenses due to the board member under this section and KRS 16.640 and 78.780 until the board member has met the annual training requirements; and

(c) The retirement systems shall incorporate by reference in an administrative regulation, pursuant to KRS 13A.2251, the trustee education program.

(19) In order to improve public transparency regarding the administration of the systems, the board of trustees shall adopt a best practices model by posting the following information to the retirement systems' Web site and shall make available to the public:

(a) Meeting notices and agendas for all meetings of the board. Notices and agendas shall be posted to the retirement systems' Web site at least seventy-two (72) hours in advance of the board or committee meetings, except in the case of special or emergency meetings as provided by KRS 61.823;

(b) The Comprehensive Annual Financial Report with the information as follows:

1. A general overview and update on the retirement systems by the executive director;

2. A listing of the board of trustees;

3. A listing of key staff;
4. An organizational chart;
5. Financial information, including a statement of plan net assets, a statement of changes in plan net assets, an actuarial value of assets, a schedule of investments, a statement of funded status and funding progress, and other supporting data;
6. Investment information, including a general overview, a list of the retirement system's professional consultants, a total ***net of fees*** return on retirement systems investments over a historical period, an investment summary, contracted investment management expenses, transaction commissions, and a schedule of investments;
7. The annual actuarial valuation report on the pension benefit and the medical insurance benefit; and
8. A general statistical section, including information on contributions, benefit payouts, and retirement systems' demographic data;

(c) All external audits;

(d) All board minutes or other materials that require adoption or ratification by the board of trustees. The items listed in this paragraph shall be posted within seventy-two (72) hours of adoption or ratification of the board;

(e) All bylaws, policies, or procedures adopted or ratified by the board of trustees;

(f) The retirement systems' summary plan description;

(g) A document containing an unofficial copy of the statutes governing the systems administered by Kentucky Retirement Systems;

(h) A listing of the members of the board of trustees and membership on each committee established by the board, including any investment committees;

(i) All investment holdings ***in aggregate, fees,*** and commissions for each fund administered by the board***, which shall be updated on a quarterly basis for***

fiscal years beginning on or after July 1, 2017. ~~[The board shall update the list of holdings and commissions on a quarterly basis for fiscal years beginning on or after July 1, 2008]~~***The systems shall request from all managers, partnerships, and any other available sources all information regarding fees and commissions and shall, based on the requested information received:***

1. Disclose the dollar value of fees and commissions paid to each individual manager or partnership;

2. Disclose the dollar value of any profit sharing, carried interest, or any other partnership incentive arrangements, partnership agreements, or any other partnership expenses received by or paid to each manager or partnership; and

3. As applicable, report each fee or commission by manager or partnership consistent with standards established by the Institutional Limited Partners Association (ILPA).

In addition to the requirements of this paragraph, the systems shall also disclose the name and address of all individual underlying managers or partners in any fund of funds in which system assets are invested;

(j) An update of ***net of fees*** investment returns, asset allocations, and the performance of the funds against benchmarks adopted by the board for each fund***,***~~[and]~~ for each asset class administered by the board***, and for each manager***. The update shall be posted on a quarterly basis for fiscal years beginning on or after ***July 1, 2017***~~[July 1, 2008]~~;

(k) A searchable database of the systems' expenditures and a listing of each individual employed by the systems along with the employee's salary or wages. In lieu of posting the information required by this paragraph to the systems' Web site, the systems may provide the information through a Web

site established by the executive branch to inform the public about executive branch agency expenditures and public employee salaries and wages[~~. No provision of this paragraph shall require the systems to disclose confidential member information protected under KRS 61.661~~];[~~ and~~]

(l) ***All contracts or offering documents for services, goods, or property purchased or utilized by the systems; and***

(m) Information regarding the systems' financial and actuarial condition that is easily understood by the members, retired members, and the public.

(20) Notwithstanding the requirements of subsection (19) of this section, the retirement systems shall not be required to furnish information that is protected under KRS 61.661, exempt under KRS 61.878, or that, if disclosed, would compromise the retirement systems' ability to competitively invest in real estate or other asset classes, ***except that no provision of this section or KRS 61.878 shall exclude disclosure and review of all contracts, including investment contracts, by the board, the Auditor of Public Accounts, and the Government Contract Review Committee established pursuant to KRS 45A.705 or the disclosure of investment fees and commissions as provided by this section. If any public record contains material which is not excepted under this section, the systems shall separate the excepted material by removal, segregation, or redaction, and make the nonexcepted material available for examination***[~~or to competitively negotiate vendor fees~~].

(21) Notwithstanding any other provision of KRS 16.505 to 16.652, 61.510 to 61.705, and 78.510 to 78.852 to the contrary, no funds of the systems administered by Kentucky Retirement Systems, including fees and commissions paid to an investment manager, private fund, or company issuing securities, who manages systems assets, shall be used to pay fees and commissions to [~~unregulated~~]placement agents. For purposes of this subsection, "[~~unregulated~~]placement agent"

means ***a third-party***~~[an]~~ individual***, who is not an employee,*** or firm***, wholly or partially owned by the entity being hired,*** who solicits investments on behalf of an investment manager, private fund, or company issuing securities~~[, who is prohibited by federal securities laws and regulations promulgated thereunder from receiving compensation for soliciting a government agency]~~.

➔Section 4. KRS 61.650 is amended to read as follows:

(1) (a) The board shall be the trustee of the several funds created by KRS 16.510, 61.515, 61.701, and 78.520, notwithstanding the provisions of any other statute to the contrary, and shall have exclusive power to invest and reinvest such funds in accordance with federal law.

(b) 1. The board shall establish an investment committee whose membership shall be composed of the following:

a. The ***six (6)***~~[two (2)]~~ trustees appointed by the Governor pursuant to KRS 61.645(1)(e)5.; and

b. Three (3) trustees appointed by the board chair.

2. The investment committee shall have authority to implement the investment policies adopted by the board and act on behalf of the board on all investment-related matters and to acquire, sell, safeguard, monitor, and manage the assets and securities of the several funds.

(c) A trustee, officer, employee, or other fiduciary shall discharge duties with respect to the retirement system:

1. Solely in the interest of the members and beneficiaries;

2. For the exclusive purpose of providing benefits to members and beneficiaries and paying reasonable expenses of administering the system;

3. With the care, skill, and caution under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those

matters would use in the conduct of an activity of like character and purpose;

4. Impartially, taking into account any differing interests of members and beneficiaries;

5. Incurring any costs that are appropriate and reasonable; and

6. In accordance with a good-faith interpretation of the law governing the retirement system.

(d) In addition to the standards of conduct prescribed by paragraph (c) of this subsection, all individuals associated with the investment and management of retirement system assets, whether contracted investment advisors, board members, or staff employees, shall adhere to "The Code of Ethics and Standards of Professional Conduct," the "Asset Manager Code of Professional Conduct" if the individual is managing retirement system assets, and the "Code of Conduct for Members of a Pension Scheme Governing Body" if the individual is a board member. All codes cited in this paragraph are promulgated by the CFA Institute.

(2) All securities acquired under authority of KRS 61.510 to 61.705 shall be registered in the name "Kentucky Retirement Systems" or nominee name as provided by KRS 286.3-225 and every change in registration, by reason of sale or assignment of such securities, shall be accomplished pursuant to written policies adopted by the board.

(3) The board, in keeping with its responsibility as trustee and wherever consistent with its fiduciary responsibilities, shall give priority to the investment of funds in obligation calculated to improve the industrial development and enhance the economic welfare of the Commonwealth.

(4) The contents of real estate appraisals, engineering or feasibility estimates, and evaluations made by or for the system relative to the acquisition or disposition of property, until such time as all of the property has been acquired or sold, shall be

excluded from the application of KRS 61.870 to 61.884 and shall be subject to inspection only upon order of a court of competent jurisdiction.

(5) Based upon market value at the time of purchase, the board shall limit the amount of assets managed by any one (1) active or passive investment manager to fifteen percent (15%) of the assets in the pension and insurance funds.

(6) All contracts for the investment or management of assets of the systems shall not be subject to KRS Chapters 45, 45A, 56, and 57. Instead, the board shall conduct the following process to develop and adopt an investment procurement policy with which all prospective contracts for the investment or management of assets of the systems shall comply:

(a) On or before July 1, 2017, the board shall consult with the secretary of the Finance and Administration Cabinet or his or her designee to develop an investment procurement policy, which shall be written to meet best practices in investment management procurement;

(b) Thirty (30) days prior to adoption, the board shall tender the preliminary investment procurement policy to the secretary of the Finance and Administration Cabinet or his or her designee for review and comment;

(c) Upon receipt of comments from the secretary of the Finance and Administration Cabinet or his or her designee, the board shall choose to adopt or not adopt any recommended changes;

(d) Upon adoption, the board shall tender the final investment procurement policy to the secretary of the Finance and Administration Cabinet or his or her designee;

(e) No later than thirty (30) days after receipt of the investment procurement policy, the secretary or his or her designee shall certify whether the board's investment procurement policy meets or does not meet best practices for investment management procurement; and

(f) Any amendments to the investment procurement policy shall adhere to the requirements set forth by paragraphs (b) to (e) of this subsection.

➔Section 5. KRS 161.250 is amended to read as follows:

(1) (a) The general administration and management of the retirement system, and the responsibility for its proper operation and for making effective provisions of KRS 161.155 and 161.220 to 161.714 are vested in a board of trustees to be known as the "Board of Trustees of the Teachers' Retirement System of the State of Kentucky."

(b) The board of trustees shall consist of ***the following:***

1. The chief state school officer[~~,~~]***;***

2. The State Treasurer[~~,~~]***;***

3. Two (2) trustees, appointed by the Governor of the Commonwealth, subject to Senate confirmation in accordance with KRS 11.160 for each appointment or reappointment. These two (2) trustees shall have investment experience. For purposes of this subparagraph, a trustee with "investment experience" means an individual who does not have a conflict of interest, as provided by KRS 161.460, and who has at least ten (10) years of experience in one (1) of the following areas of expertise:

a. A portfolio manager acting in a fiduciary capacity;

b. A professional securities analyst or investment consultant;

c. A current or retired employee or principal of a trust institution, investment or finance organization, or endowment fund acting in an investment-related capacity;

d. A chartered financial analyst in good standing as determined by the CFA Institute; or

e. A university professor, teaching investment-related studies; and

4. Seven (7) other trustees elected as provided in KRS 161.260. Four (4) of the elective trustees shall be members of the retirement system, to be known as teacher trustees, two (2) shall be persons who are not members of the teaching profession, to be known as the lay trustees, and one (1) shall be an annuitant of the retirement system to be known as the retired teacher trustee. One (1) teacher trustee shall be elected annually for a four-year term. The retired teacher trustee shall be elected every four (4) years. The chief state school officer and the State Treasurer are considered ex officio members of the board of trustees and may designate in writing a person to represent them at board meetings.

(c) 1. Elective trustees shall not serve more than three (3) consecutive four (4) year terms. An elective trustee who has served three (3) consecutive terms may be elected again after an absence of four (4) years from the board of trustees.

2. The term limits established by subparagraph 1. of this paragraph shall apply to elective trustees serving on or after July 1, 2012, and all terms of office served prior to July 1, 2012, shall be used to determine if the elective trustee has exceeded the term limits provided by subparagraph 1. of this paragraph.

(d) 1. Each appointed trustee shall serve a term of four (4) years. An appointed trustee shall not serve more than three (3) consecutive four (4) year terms. An appointed trustee who has served three (3) consecutive terms may be appointed again after an absence of four (4) years from the board of trustees.

2. Any vacancy that occurs in an appointed position shall be filled in the same manner that provides for the selection of the trustee; however, any vacancy shall be filled only for the duration of the unexpired term.

(2) A member, retired member, or designated beneficiary may appeal the retirement system's decisions that materially affect the amount of service retirement allowance, amount of service credit, eligibility for service retirement, or eligibility for survivorship benefits to which that member, retired member, or designated beneficiary claims to be entitled. All appeals must be in writing and filed with the retirement system within thirty (30) days of the claimant's first notice of the retirement system's decision. For purposes of this section, notice shall be complete and effective upon the date of mailing of the retirement system's decision to the claimant at the claimant's last known address. Failure by the claimant to file a written appeal with the retirement system within the thirty (30) day period shall result in the decision of the retirement system becoming permanent with the effect of a final and unappealable order. Appeals may include a request for an administrative hearing which shall be conducted in accordance with the provisions of KRS Chapter 13B. The board of trustees may establish an appeals committee whose members shall be appointed by the chairperson and who shall have the authority to act upon the report and recommendation of the hearing officer by issuing a final order on behalf of the full board of trustees. A member, retired member, or designated beneficiary who has filed a timely, written appeal of a decision of the retirement system may, following the administrative hearing and issuance of the final order by the board of trustees, appeal the final order of the board of trustees to the Franklin Circuit Court in accordance with the provisions of KRS Chapter 13B.

(3) The board of trustees shall establish a formal trustee education program for all trustees of the board. The program shall include but not be limited to the following:

(a) A required orientation program for all new trustees to the board. The orientation program shall include training on:

1. Benefits and benefits administration;

2. Investment concepts, policies, and current composition and administration of retirement system investments;
3. Laws, bylaws, and administrative regulations pertaining to the retirement system and to fiduciaries; and
4. Actuarial and financial concepts pertaining to the retirement system.

If a trustee fails to complete the orientation program within one (1) year from the beginning of his or her first term on the board, the retirement system shall withhold payment of the per diem and travel expenses due to the board member under KRS 161.290 until the trustee has completed the orientation program;

(b) Annual required training for trustees on the administration, benefits, financing, and investing of the retirement system. If a trustee fails to complete the annual required training during the calendar or fiscal year, the retirement system shall withhold payment of the per diem and travel expenses due to the board member under KRS 161.290 until the board member has met the annual training requirements; and

(c) The retirement system shall incorporate by reference in an administrative regulation, pursuant to KRS 13A.2251, the trustee education program.

(4) In order to improve public transparency regarding the administration of the system, the board of trustees shall adopt a best practices model by posting the following information to the retirement system's Web site and shall make available to the public:

(a) Meeting notices and agendas for all meetings of the board. Notices and agendas shall be posted to the retirement system's Web site at least seventy-two (72) hours in advance of the board or committee meetings, except in the case of special or emergency meetings as provided by KRS 61.823;

(b) The Comprehensive Annual Financial Report with the information as follows:

1. A general overview and update on the retirement system by the executive secretary;
2. A listing of the board of trustees;
3. A listing of key staff;
4. An organizational chart;
5. Financial information, including a statement of plan net assets, a statement of changes in plan net assets, an actuarial value of assets, a schedule of investments, a statement of funded status and funding progress, and other supporting data;
6. Investment information, including a general overview, a list of the retirement system's professional consultants, a total ***net*** return on retirement system investments over a historical period, an investment summary, contracted investment management expenses, transaction commissions, and a schedule of investments;
7. The annual actuarial valuation report on the pension benefit and the medical insurance benefit; and
8. A general statistical section, including information on contributions, benefit payouts, and retirement system demographic data;

(c) All external audits;

(d) All board minutes or other materials that require adoption or ratification by the board of trustees. The items listed in this paragraph shall be posted within seventy-two (72) hours of adoption or ratification of the board;

(e) All bylaws, policies, or procedures adopted or ratified by the board of trustees;

(f) The retirement system's summary plan description;

(g) The retirement system's law book;

(h) A listing of the members of the board of trustees and membership on each committee established by the board, including any investment committees;

(i) All investment holdings ***in aggregate, fees,*** and commissions for each fund administered by the board***, which shall be updated on a quarterly basis for fiscal years beginning on or after July 1, 2017***.~~[The board shall update the list of holdings and commissions on a quarterly basis for fiscal years beginning on or after July 1, 2008]~~ ***The system shall request from all managers, partnerships, and any other available sources all information regarding fees and commissions and shall, based on the requested information received:***

1. Disclose the dollar value of fees or commissions paid to each individual manager or partnership;

2. Disclose the dollar value of any profit sharing, carried interest, or any other partnership incentive arrangements, partnership agreements, or any other partnership expenses received by or paid to each manager or partnership; and

3. As applicable, report each fee or commission by manager or partnership consistent with standards established by the Institutional Limited Partners Association (ILPA).

In addition to the requirements of this paragraph, the system shall also disclose the name and address of all individual underlying managers or partners in any fund of funds in which system assets are invested;

(j) An update of ***net of fees*** investment returns, asset allocations, and the performance of the funds against benchmarks adopted by the board for each fund***,***~~[and]~~ for each asset class administered by the board***, and for each manager***. The update shall be posted on a quarterly basis for fiscal years beginning on or after ***July 1, 2017***~~[July 1, 2008]~~;~~[and]~~

(k) ***All contracts or offering documents for services, goods, or property purchased or utilized by the system; and***

(l) A searchable database of the system's expenditures and a listing of each individual employed by the system along with the employee's salary or wages. In lieu of posting the information required by this paragraph to the system's Web site, the system may provide the information through a Web site established by the executive branch to inform the public about executive branch agency expenditures and public employee salaries and wages.~~[No provision of this paragraph shall require the system to disclose confidential member information protected under KRS 161.585.]~~

(5) Notwithstanding the requirements of subsection (4) of this section, the retirement system shall not be required to furnish information that is protected under KRS 161.585, exempt under KRS 61.878, or that, if disclosed, would compromise the retirement system's ability to competitively invest in real estate or other asset classes***, except that no provision of this section or KRS 61.878 shall exclude disclosure and review of all contracts, including investment contracts, by the board, the Auditor of Public Accounts, and the Government Contract Review Committee established pursuant to KRS 45A.705 or the disclosure of investment fees and commissions as provided by this section. If any public record contains material which is not excepted under this section, the system shall separate the excepted material by removal, segregation, or redaction, and make the nonexcepted material available for examination***~~[or to competitively negotiate vendor fees]~~.

(6) For any benefit improvements the General Assembly has authorized the board of trustees to establish under KRS 161.220 to 161.716 and that require formal adoption by the board, the board shall establish the benefits by promulgation of administrative regulations in accordance with KRS Chapter 13A.

➔Section 6. KRS 161.300 is amended to read as follows:

Seven (7)~~[Five (5)]~~ members of the board of trustees shall constitute a quorum. Each

trustee shall be entitled to one (1) vote. Four (4) votes or a majority of the trustees present whichever is the larger number shall be necessary for a decision by the trustees at any meeting of the board.

➔Section 7. KRS 161.340 is amended to read as follows:

(1) (a) The board of trustees shall elect from its membership a chairperson and a vice chairperson on an annual basis as prescribed by the administrative regulations of the board of trustees. The chairperson shall not serve more than four (4) consecutive years as chairperson or vice chairperson of the board. The vice chairperson shall not serve more than four (4) consecutive years as chairperson or vice chairperson of the board. A trustee who has served four (4) consecutive years as chairperson or vice chairperson of the board may be elected chairperson or vice chairperson of the board after an absence of two (2) years from the position.

(b) The board of trustees shall employ an executive secretary by means of a contract not to exceed a period of four (4) years and fix the compensation and other terms of employment for this position without limitation of the provisions of KRS ***Chapter***~~[Chapters]~~ 18A~~[, 45A, 56,]~~ and KRS 64.640. The executive secretary shall be the chief administrative officer of the board. The executive secretary, at the time of employment, shall be a graduate of a four (4) year college or university, and shall possess qualifications as the board of trustees may require. The executive secretary shall not have held by appointment or election an elective public office within the five (5) year period next preceding the date of employment.

(2) The board shall employ clerical, administrative, and other personnel as are required to transact the business of the retirement system. The compensation of all persons employed by the board shall be paid at the rates and in amounts as the board approves. Anything in the Kentucky Revised Statutes to the contrary

notwithstanding, the power over and the control of determining and maintaining an adequate complement of employees in the system shall be under the exclusive jurisdiction of the board of trustees.

(3) ***(a) Except as provided by subsection (7) of Section 8 of this Act,*** the board shall contract for actuarial, auditing, legal, medical, investment counseling, and other professional or technical services, and commodities, as are required to carry out the obligations of the board in accordance with the provisions of this chapter***, subject to***~~[without limitations, including]~~ KRS Chapters ~~[12, 13B,]~~45, 45A, 56, and 57 ***but without the limitations provided by KRS Chapters 12 and 13B.***~~[, and]~~

(b) The board shall provide for legal counsel and other legal services as may be required in defense of trustees, officers, and employees of the system who may be subjected to civil action arising from the performance of their legally assigned duties if counsel and services are not provided by the Attorney General***. The hourly rate of reimbursement for any contract for legal services under this paragraph shall not exceed the maximum hourly rate provided in the Legal Services Duties and Maximum Rate Schedule promulgated by the Government Contract Review Committee established pursuant to KRS 45A.705, unless a higher rate is specifically approved by the secretary of the Finance and Administration Cabinet or his or her designee***.

(4) The board shall require the trustees, executive secretary, and employees it determines proper to execute bonds for the faithful performance of their duties notwithstanding the limitations of KRS Chapter 62.

(5) The board of trustees may expend funds from the expense fund as necessary to insure the trustees, employees, and officials of the Teachers' Retirement System against any liability arising out of an act or omission committed in the scope and

course of performing legal duties.

(6) Notwithstanding any statute to the contrary, employees shall not be considered legislative agents as defined in KRS 6.611.

(7) Notwithstanding any statute to the contrary, the executive branch of government shall accept from the Kentucky Teachers' Retirement System all accrued annual and sick leave balances and service credits of employees leaving the Kentucky Teachers' Retirement System and accepting appointments within the executive branch. These leave balances shall be attested to by the Kentucky Teachers' Retirement System and shall not exceed those limits established by statute or administrative regulation for employees of the executive branch.

➔Section 8. KRS 161.430 is amended to read as follows:

(1) The board of trustees shall be the trustee of the funds of the retirement system and shall have full power and responsibility for the purchase, sale, exchange, transfer, or other disposition of the investments and moneys of the retirement system. The board shall, by administrative regulation, establish investment policies and procedures to carry out their responsibilities. The board shall employ experienced competent investment counselors to advise it on all matters pertaining to investment, except the board may employ qualified investment personnel to advise it on investment matters not to exceed fifty percent (50%) of the book value of the system's assets. All individuals associated with the investment and management of retirement system assets, whether contracted investment advisors***, board members,*** or staff employees, shall adhere to "The Code of Ethics~~["~~] and ~~["The]~~Standards of Professional Conduct***,***" ***the "Asset Manager Code of Professional Conduct" if the individual is managing retirement system assets, and the "Code of Conduct for Members of a Pension Scheme Governing Body" if the individual is a board member,*** promulgated by the ***CFA Institute***~~[Association for Investment Management and Research]~~. Effective July 1, 1991, no investment counselor shall

manage more than forty percent (40%) of the funds of the retirement system. The board may appoint an investment committee consisting of the executive secretary and two (2) trustees to act for the board in all matters of investment, subject to the approval of the board of trustees. The board of trustees, in keeping with their responsibilities as trustees and wherever consistent with their fiduciary responsibilities, shall give priority to the investment of funds in obligations calculated to improve the industrial development and enhance the economic welfare of the Commonwealth. Toward this end, the board shall develop procedures for informing the business community of the potential for in-state investments by the retirement fund, accepting and evaluating applications for the in-state investment of funds, and working with members of the business community in executing in-state investments which are consistent with the board's fiduciary responsibilities. The board shall include in the criteria it uses to evaluate in-state investments their potential for creating new employment opportunities and adding to the total job pool in Kentucky. The board may cooperate with the board of trustees of Kentucky Retirement Systems in developing its program and procedures, and shall report to the Legislative Research Commission annually on its progress in placing in-state investments. The first report shall be submitted by October 1, 1991, and subsequent reports shall be submitted by October 1 of each year thereafter. The report shall include the number of applications for in-state investment received, the nature of the investments proposed, the amount requested, the amount invested, and the percentage of applications which resulted in investments.

(2) The board members and investment counselor shall discharge their duties with respect to the assets of the system solely in the interests of the active contributing members and annuitants and:

(a) For the exclusive purpose of providing benefits to members and annuitants and defraying reasonable expenses of administering the system;

(b) With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims;

(c) By diversifying the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

(d) In accordance with the laws, administrative regulations, and other instruments governing the system.

(3) (a) In choosing and contracting for professional investment management services the board must do so prudently and in the interest of the members and annuitants. Any contract that the board makes with an investment counselor shall set forth policies and guidelines of the board with reference to standard rating services and specific criteria for determining the quality of investments. Expenses directly related to investment management services shall be financed from the guarantee fund in amounts approved by the board.

(b) An investment counselor appointed under this section shall acknowledge in writing his fiduciary responsibilities to the fund. To be eligible for appointment, an investment counselor must be:

1. Registered under the Federal Investment Advisors Act of 1940; or

2. A bank as defined by that Act; or

3. An insurance company qualified to perform investment services under the laws of more than one (1) state.

(4) No investment or disbursement of funds shall be made unless authorized by the board of trustees, except that the board, in order to ensure timely market transactions, shall establish investment guidelines, by administrative regulation, and may permit its staff and investment counselors employed pursuant to this section to execute purchases and sales of investment instruments within those guidelines

without prior board approval.

(5) In discharging his or her administrative duties under this section, a trustee shall strive to administer the retirement system in an efficient and cost-effective manner for the taxpayers of the Commonwealth of Kentucky.

(6) Notwithstanding any other provision of KRS 161.220 to 161.716, no funds of the Kentucky Teachers' Retirement System, including fees and commissions paid to an investment manager, private fund, or company issuing securities, who manages systems assets, shall be used to pay fees and commissions to ~~[unregulated]~~placement agents. For purposes of this subsection, ~~[an]~~"~~[unregulated]~~placement agent" means ***a third-party***~~[an]~~ individual***, who is not an employee,*** or firm***, wholly or partially owned by the entity being hired,*** who solicits investments on behalf of an investment manager, private fund, or company issuing securities~~[, who is prohibited by federal securities laws and regulations promulgated thereunder from receiving compensation for soliciting a government agency]~~.

(7) All contracts for the investment or management of assets of the system shall not be subject to KRS Chapters 45, 45A, 56, and 57. Instead, the board shall conduct the following process to develop and adopt an investment procurement policy with which all prospective contracts for the investment or management of assets of the system shall comply:

(a) On or before July 1, 2017, the board shall consult with the secretary of the Finance and Administration Cabinet or his or her designee to develop an investment procurement policy, which shall be written to meet best practices in investment management procurement;

(b) Thirty (30) days prior to adoption, the board shall tender the preliminary investment procurement policy to the secretary of the Finance and Administration Cabinet or his or her designee for review and comment;

(c) Upon receipt of comments from the secretary of the Finance and

Administration Cabinet or his or her designee, the board shall choose to adopt or not adopt any recommended changes;

(d) Upon adoption, the board shall tender the final investment procurement policy to the secretary of the Finance and Administration Cabinet or his or her designee;

(e) No later than thirty (30) days after receipt of the investment procurement policy, the secretary or his or her designee shall certify whether the board's investment procurement policy meets or does not meet best practices for investment management procurement; and

(f) Any amendments to the investment procurement policy shall adhere to the requirements set forth by paragraphs (b) to (e) of this subsection.

➔Section 9. KRS 7A.220 is amended to read as follows:

(1) The Public Pension Oversight Board shall be composed of the following ***nineteen (19)***~~[thirteen (13)]~~ members:

(a) ***Four (4)***~~[Two (2)]~~ members of the General Assembly appointed by the Speaker of the House of Representatives, each of whom shall serve while a member of the House for the term for which he or she has been elected, ***one (1) of whom shall be the chair or a vice chair of the House Standing Committee on Appropriations and Revenue,*** and one (1) of whom the Speaker shall designate as co-chair ***of the board***;

(b) ***Four (4)***~~[Two (2)]~~ members of the General Assembly appointed by the President of the Senate, each of whom shall serve while a member of the Senate for the term for which he or she has been elected, ***one (1) of whom shall be the chair or a vice chair of the Senate Standing Committee on Appropriations and Revenue,*** and one (1) of whom the President shall designate as co-chair ***of the board***;

(c) ***Two (2) members***~~[One (1) member]~~ of the General Assembly appointed by

the Minority Floor Leader of the Senate, who shall serve while a member of the Senate for the term for which he or she has been elected;

(d) ***Two (2) members***~~[One (1) member]~~ of the General Assembly appointed by the Minority Floor Leader of the House of Representatives, who shall serve while a member of the House for the term for which he or she has been elected;

(e) One (1) individual appointed by the Speaker of the House of Representatives, who shall be certified as a chartered financial analyst (CFA) with at least ten (10) years of investment experience or who shall possess at least ten (10) years of retirement experience as defined by subsection (2) of this section;

(f) One (1) individual appointed by the President of the Senate, who shall be certified as a chartered financial analyst (CFA) with at least ten (10) years of investment experience or who shall possess at least ten (10) years of retirement experience as defined by subsection (2) of this section;

(g) The state budget director or his or her designee;

(h) The Auditor of Public Accounts or his or her designee;

(i) The Attorney General or his or her designee; and

(j) Two (2) individuals appointed by the Governor, one (1) of whom shall be certified as a chartered financial analyst (CFA) with at least ten (10) years of investment experience and one (1) of whom shall possess at least ten (10) years of retirement experience as defined by subsection (2) of this section.

(2) For purposes of this section, "retirement experience" means:

(a) Experience in retirement or pension plan management;

(b) A certified public accountant with relevant experience in retirement or pension plan accounting;

(c) An actuary with relevant experience in retirement or pension plan consulting;

(d) An attorney licensed to practice law in the Commonwealth of Kentucky with

relevant experience in retirement or pension plans; or

(e) A current or former university professor whose primary area of emphasis is economics or finance.

(3) Individuals appointed under subsection (1)(e), (f), and (j) of this section shall not:

(a) Be a member of the General Assembly;

(b) Be employed by a state agency of the Commonwealth of Kentucky or receiving a contractual payment for services rendered to a state agency of the Commonwealth of Kentucky that would conflict with his or her service to the board; or

(c) Serve more than three (3) consecutive four (4) year terms on the board.

(4) Any vacancy which may occur in the membership of the board shall be filled by the appointing authority who made the original appointment.

(5) Individuals appointed under subsection (1)(e), (f), and (j) of this section shall serve a term of four (4) years.

➔Section 10. KRS 7A.255 is amended to read as follows:

(1) Notwithstanding KRS 21.345 to 21.580, 61.661, 61.870 to 61.884, or 161.585 to the contrary, on or before November 15 following the close of each fiscal year, the state-administered retirement systems shall collectively file a report with the Public Pension Oversight Board that shall include the following information for each member or recipient of a retirement allowance from any of the state-administered retirement systems:

(a)~~[(1)]~~ A unique identification number for each member or recipient that is created solely for purposes of compiling the report provided by this section and which shall not be the member's Social Security number or personal identification number issued by the systems. For individual members or recipients with multiple accounts in the state-administered retirement systems, all of the state-administered retirement systems shall use the same unique

identification number;

(b)[~~(2)~~] The system or systems in which the member has an account or from which the retired member is receiving a monthly retirement allowance;

(c)[~~(3)~~] The status of the member or recipient, including but not limited to whether he or she is a contributing member, a member who is not currently contributing to the systems but has not retired, a retired member, a beneficiary, or a retired member who has returned to work following retirement with an agency participating in the systems;

(d)[~~(4)~~] If the individual is a retired member or beneficiary, the annualized monthly retirement allowance that he or she was receiving at the end of the most recently completed fiscal year; and

(e)[~~(5)~~] If the individual is a member who has not yet retired, the estimated annual retirement allowance that he or she is eligible to receive at his or her normal retirement date based upon his or her service credit, final compensation, and accumulated account balance at the end of the most recently completed fiscal year.

Under no circumstances shall the member's name, address, or Social Security number be included in the information required to be reported to the board by this section, nor shall the unique identification number established by subsection (1) of this section be capable of being linked to a specific member's retirement account with a state-administered retirement system.

(2) On or before November 15 following the close of each fiscal year, the state-administered retirement systems shall report to the Public Pension Oversight Board the percentage of system assets and managers for which fees and commissions are being reported in accordance with paragraph (m) of subsection (4) of Section 2 of this Act, paragraph (i) of subsection (19) of Section 3 of this Act, and paragraph (i) of subsection (4) of Section 5 of this Act. This subsection

shall apply on a fiscal year basis beginning on or after July 1, 2017.

(3) On or before November 15, 2017, the state-administered retirement systems shall tender to the Public Pension Oversight Board a copy of their board-adopted investment procurement policy along with certification from the secretary of the Finance and Administration Cabinet that the investment procurement policy meets or does not meet the best practices for investment management procurement. If the board amends its investment procurement policy, it shall tender a copy of its amended investment procurement policy to the Public Pension Oversight Board within sixty (60) days of adoption along with certification from the secretary of the Finance and Administration Cabinet that the policy meets or does not meet the best practices for investment management procurement.

➔Section 11. KRS 6.350 is amended to read as follows:

(1) A bill which would increase or decrease the benefits or increase or decrease participation in the benefits or change the actuarial accrued liability of any state-administered retirement system shall not be reported from a legislative committee of either house of the General Assembly for consideration by the full membership of that house unless the bill is accompanied by an actuarial analysis.

(2) (a) An actuarial analysis required by this section ***shall***~~[must]~~ show the economic effect of the bill on the state-administered retirement system over a twenty (20) year period, including:

1. An estimate of the effect on the unfunded actuarial accrued liabilities and funding levels of the affected systems; and

2. A projection of the annual employer costs to the systems of implementing the legislation over the twenty (20) year period. The annual employer cost projection shall include the effect on the contributions of participating employers as a percentage of total payroll

and in total dollars of contributions.

(b) If a bill affects more than one (1) state-administered retirement system, the actuarial analysis shall project costs for each affected state-administered retirement system.

(c) A statement that the cost is negligible or indeterminable shall not be considered in compliance with this section. If a cost cannot be determined by the actuary in accordance with paragraph (a) of this subsection, then the systems shall certify in writing:

1. The estimated number of individuals affected;

2. The estimated change in benefit payments;

3. The estimated change to employer costs; and

4. The estimated change to administrative expenses.

(d)[~~(c)~~] An actuarial analysis shall state the actuarial assumptions and methods of computation used in the analysis and shall state whether or not the bill or resolution, if enacted, would, in the opinion of the actuary, make the affected state-administered retirement system actuarially unsound or, in the case of a system already actuarially unsound, more unsound. Actuarial cost methods and assumptions that meet actuarial standards of practice established by the Actuarial Standards Board shall be used in all cost projections.

(e)[~~(d)~~] An actuarial analysis required by this section shall be prepared by an actuary who is a fellow of the Conference of Consulting Actuaries or a member of the American Academy of Actuaries.

(3) (a) An actuary commissioned to make an actuarial analysis that is required by this section, or for the purpose of seeking appropriations for a state-administered retirement system, shall include in the analysis a complete definition of each actuarial term used in the analysis and, either in the analysis or in a separate actuarial valuation report made available as a public record, an enumeration

and explanation of each actuarial assumption used to complete the actuarial analysis.

(b) If the actuary commissioned to complete the actuarial analysis is relying upon assumptions that have not been previously established by the actuary in an actuarial valuation of the affected state-administered retirement system, the actuary shall clearly note and describe the new assumption and the basis for selecting the assumption.

(4) The actuarial analysis required by this section shall be completed by the actuary retained by the affected state-administered retirement system. The state-administered retirement systems shall provide the analysis without cost to the General Assembly.

(5) For purposes of this section, the terms:

(a) "State-administered retirement system" shall include:

1. The Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System administered by the Kentucky Retirement Systems and established under the provisions of KRS 16.505 to 16.652, 61.510 to 61.705, and 78.510 to 78.852;

2. The Kentucky Teachers' Retirement System established under KRS 161.220 to 161.716;

3. The Judicial Retirement Plan established under KRS 21.345 to 21.580; and

4. The Legislators' Retirement Plan established under KRS 6.500 to 6.577; and

(b) "Funding level" means the actuarial value of assets divided by the actuarially accrued liability expressed as a percentage.

➔Section 12. The amendments to subsections (1) and (6) of Section 2 of this Act,

subsections (2) and (21) of Section 3 of this Act, subsection (3) of Section 7 of this Act, and subsection (6) of Section 8 of this Act, governing placement agents and contracts or offerings entered into by the state-administered retirement systems, shall apply to contracts and offerings established or contracts or offerings renewed on or after July 1, 2017.

➔Section 13. The amendments to subsections (1) and (7) of Section 2 of this Act, subsection (2) of Section 3 of this Act, subsection (6) of Section 4 of this Act, subsection (3) of Section 7 of this Act, and subsection (7) of Section 8 of this Act governing the application of the Model Procurement Code, KRS Chapter 45A, and related statutes to the state-administered retirement systems, shall apply to contracts and offerings established or contracts or offerings renewed on or after July 1, 2017.

➔Section 14. The amendments to subsection (1) of Section 1 of this Act and to subsection (1)(e) of Section 3 of this Act that require Senate confirmation of, and modify the requirements for, gubernatorial appointments to the Judicial Form Retirement System and the Kentucky Retirement Systems boards of trustees shall apply to appointments or reappointments made on or after the effective date of this Act.

➔Section 15. Notwithstanding any language to the contrary, for the purposes of providing staggered appointments of the two trustees established by subsection (1)(b) of Section 5 of this Act, the Governor shall appoint one trustee for an initial term of four years and one trustee for an initial term of two years, provided that the initial term of two years shall not count towards the term limitations in subsection (1)(d) of Section 5 of this Act for the one trustee so appointed.

➔Section 16. Notwithstanding KRS 12.028(5), the General Assembly confirms Executive Order 2016-340 dated June 17, 2016, to the extent that it is not otherwise confirmed or superseded by this Act.

➔Section 17. Whereas ensuring that the state-administered retirement systems are operating in a transparent manner is important to public employees, public retirees, and

1 taxpayers of the Commonwealth of Kentucky, an emergency is declared to exist, and this
2 Act takes effect upon its passage and approval by the Governor or upon its otherwise
3 becoming law.